

March, 2003

**How to Bid in the EPA SO<sub>2</sub> Allowance Auctions**  
**Eleventh Annual Auctions**  
**March 24, 2003**

To reduce acid rain, Title IV of the Clean Air Act Amendments of 1990 (CAAA) established the Acid Rain Program, which uses an innovative, market-based allowance trading system to cut in half sulfur dioxide emissions. The CAAA mandated that EPA hold yearly auctions of a small portion of allowances (2.8 percent) reserved from the total allowances allocated to utilities each year. The auctions are intended to help signal price information to the allowance market and provide a public source of allowances for new utilities that are not allocated allowances. Utilities, environmental groups, allowance brokers, and anyone else interested in purchasing allowances can participate in the EPA auctions. Allowances sold at the auctions will be sold to the highest bidder until no allowances remain. EPA cannot set a minimum acceptable price for allowances in the auctions and bidders are not restricted as to the quantity or price of their bid.

**When will the eleventh EPA auctions be held and how many allowances will be sold?**

On March 24, 2003, EPA will sponsor the eleventh annual allowance auctions under the CAAA. One hundred and twenty-five thousand allowances will be sold in the “spot” auction (usable for compliance beginning in 2003), and 125,000 allowances will be sold in the 7-year advance auction (usable for compliance beginning in 2010).

**What is the role of the Chicago Board of Trade in the EPA auctions?**

EPA has delegated the administration of the auctions to the Chicago Board of Trade (CBOT). CBOT will not charge fees for their services, bid for allowances in the auctions, or transfer allowances in the EPA Allowance Tracking System. EPA is allowing, however, clearing members of the Board of Trade Clearing Corporation (BOTCC) to bid on their own behalf or their customers’ without having to submit an EPA Letter of Credit Form or certified check. Payment is being guaranteed through the BOTCC, which provides trade clearance and settlement services for CBOT. BOTCC members may charge bidders a fee for bidding on their behalf.

**Can I offer some of my allowances to be sold in the EPA auctions?**

Yes, for the 2003 auctions, utilities that are allocated allowances, or others that have purchased allowances held in the Allowance Tracking System, can offer their allowances for sale in the EPA auctions and set a minimum price for those allowances. However, offered allowances will be sold after the allowances from the reserve, so offered allowances will consequently be sold at a lower price than the allowances from the reserve. To offer allowances in the 2003 auctions, EPA must receive an original SO<sub>2</sub> Allowance Offer Form by the close of business on March 3, 2003. **Faxed copies of the SO<sub>2</sub> Allowance Offer Form will NOT be accepted.**

### **Do I need an account in the Allowance Tracking System before I bid in the EPA auctions?**

Yes, to be able to bid in the EPA auctions, one must first have an account in the EPA Allowance Tracking System (ATS). Affected units are automatically given unit accounts in the ATS. All others wanting to bid in the EPA auctions must open a General Account in the ATS by submitting an Allowance Account Information Form. EPA encourages bidders to open a General Account prior to close of business March 18, 2003, the deadline by which bids must be received by CBOT.

### **How do I bid in the EPA auctions?**

Anyone can bid in the EPA auctions by opening an account in the Allowance Tracking System and submitting a Bid Form. Submitted with the Bid Form must be a certified check, an EPA Letter of Credit Form, or, when bidding through a BOTCC clearing member, a BOTCC Clearing Member Reimbursement Agreement Form. EPA will only accept an EPA Letter of Credit Form that is signed by a bank that is a member of the Federal Reserve and is a participant in the FEDWIRE funds transfer system. Complete original Bid Forms must be received by CBOT by the close of business (4:30 p.m. Central Standard Time) on **March 18, 2003**. **Faxed copies of the Bid Forms will NOT be accepted.**

### **When will the forms needed to bid in the EPA auctions be available?**

By the end of January 2003, the Allowance Account Information Form and the EPA auction forms can be obtained from the Acid Rain Hotline at (202) 564-9620 or on the Acid Rain Program Homepage: <http://www.epa.gov/airmarkets>. BOTCC Clearing Member Reimbursement Agreement Forms can be obtained from the Chicago Board of Trade at (312) 347-5528.

### **How will I know the results of the EPA auctions?**

CBOT will issue a press release of the auction results on March 25, 2003. Also EPA will post the results on the Acid Rain Program Auctions Web site (<http://www.epa.gov/airmarkets/auctions/>).

### **When do I pay for allowances won at the auctions if I use a Letter of Credit Form or BOTCC Clearing Member Reimbursement Agreement Form to guarantee payment?**

If a winning bidder uses an EPA Letter of Credit Form or a BOTCC Clearing Member Reimbursement Agreement Form, that bidder must wire funds to EPA's bank account or ensure that CBOT receives a certified check for the full amount owed no later than noon, **March 28, 2003** EST. If payment is not received by that time, CBOT will demand payment from the bank that signed the EPA Letter of Credit Form or demand payment from the BOTCC.

### **May I use a wire transfer of funds to cover my bids?**

Yes, you may use a wire transfer of funds to cover the amount of your bids instead of using a cashier's check, EPA Letter of Credit Form, or a BOTCC Clearing Member

Reimbursement Agreement Form. Submit a cover letter, along with your bid form, indicating that you are using a wire transfer to cover the amount of your bid. If you are submitting more than one bid form, you may use one wire transfer to cover the total amount of all the bids. The funds must be wired to EPA Account: TREAS NYC/(68011233)EPA no later than 4:30 p.m. Central Standard Time on the Tuesday before the date of the auction (March 18, 2003).

### **Who do I contact for more Information?**

To obtain additional information on the EPA auctions, call the Acid Rain Hotline at (202) 564-9620 or check the Acid Rain Program Auctions Web site (<http://www.epa.gov/airmarkets/auctions/>).

### **Summary of Information to Participate in the EPA Auctions**

<b>Action</b>	<b>Form Needed</b>	<b>Send To</b>	<b>Received by Close of Business</b>
Offering allowances in the EPA auctions	SO <sub>2</sub> Allowance Offer Form	EPA	March 3, 2003
Bidding in the EPA auctions			
• Open ATS General Account (does not apply to affected units)	Allowance Account Information Form	EPA	March 18, 2003
• Submit completed auction bid with method of payment	Bid Form with: (1) certified check; (2) EPA Letter of Credit Form; or (3) BOTCC Clearing Member Reimbursement Agreement Form	CBOT	March 18, 2003